



Job Cuts vs. Pay Cuts: In a Slowing Economy, What's Better for India?

Published: November 13, 2008 in [India Knowledge@Wharton](#)

One day after Diwali -- the Indian festival of lights -- the Associated Chambers of Commerce and Industry (Assocham), an industry association, published a report on the job market. Titled, "Jobs Scenario Post-Diwali," the end-October survey said that seven key industrial sectors would see nearly 25% layoffs in the next two weeks.

Predictably, there was a huge outcry. Other chambers said the situation was not so dire. "We do not believe any immediate threat exists," noted FICCI (Federation of Indian Chambers of Commerce and Industry) president Rajeev Chandrasekhar. "We should not panic."

The government was not amused either. "[We] have taken serious exception to the Assocham report," said finance minister P. Chidambaram. "The pace of job creation may slow down, but that doesn't mean that jobs are being destroyed." Eventually, Assocham withdrew the report, claiming that the sample size may not have been adequate.

The government was taking no chances, however. On November 3, it called a meeting of senior industrialists in New Delhi. They went there expecting a hearing for their woes in the wake of the global financial meltdown and, possibly, some initiatives to help them get back on track. Instead, they had to settle for the formation of a special crisis panel to consider future action. What the industrial barons -- including Mukesh Ambani, Anand Mahindra, K.V. Kamath, Sunil Bharti Mittal, Deepak Parikh, Shashi Ruia, K.P. Singh and Rajkumar Dhoot -- had to give in exchange was a promise that they would not resort to layoffs.

Yet, according to some, time may be running out for the workers on Main Street as it already has for some on Dalal Street, the Indian equivalent of Wall Street. Says M.K. Pandhe, general secretary of the Center of Indian Trade Unions (CITU): "Layoffs, closures and terminations have begun in a big way."

Trade unions, particularly Left-leaning ones like CITU, see the world through their own prism. But it is true that pink slips are more visible in India these days. The multinationals are leading the charge. U.S. mobile handset maker Motorola is shedding jobs in India as part of its global pruning operation to reduce workforce by 5%. American Express has laid off some 100 employees. IBM has shown several workers the door. For the record, most of these companies deny that there is an orchestrated layoff because of the slowdown; their explanation is that poor performers are being weeded out.

IT Slowdown

Indian information technology (IT) companies, which have been amongst the hardest hit because of the slowdown in tech spending in the U.S., have also brought out the shears. Earlier this year, Tata Consultancy Services (TCS), India's largest software consultancy, let go some 500 people. But a company spokesperson notes that this is not unusual. "Last year, too, we had to dispense with the services of 500 employees," he says. "It is part of our annual performance appraisal."



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Others point out that they are still hiring as they were in the past. "This year (2008-09), Wipro has made offers to 14,000 fresh graduates and is likely to take in 5,000 to 6,000 lateral hires," says Pratik Kumar, executive vice-president of human resources at Wipro, a major software firm. Adds Nandita Gurjar, senior vice-president and group head of human resources at Infosys Technologies, the other member of India's IT triumvirate: "For next year (2009-10), we have already made 20,000 offers, the same as we did for this year." The National Association of Software and Service Companies (Nasscom) has ruled out layoffs in the IT arena. It has, however, lowered its 2008-09 job addition target from 270,000 to 200,000. Pay hikes are expected to be moderate the next two years, says Nasscom.

The IT sector is known for its high attrition rates and a certain amount of churn is taken for granted. What made headlines in the newspapers and cover stories of business magazines was aviation joining the pink slip bandwagon. In an unexpected announcement in mid-October, Jet Airways, India's largest carrier, said it was letting go 850 cabin crew. It followed that up with a statement that another 1,000 would have to go. (Jet's total workforce is around 13,000.)

Job losses are not exactly unknown at Jet; when the airline acquired Air Sahara last year, it had pruned some 1,200 jobs. The difference this time was in the way it was done. Employees waiting at home for office transport found that the vehicles never came. When some of them reached the airport on their own, they discovered that their jobs were in jeopardy. "You cannot do such a thing," said Union petroleum minister Murli Deora. "This is not the right time to retrench people, particularly before Diwali."

Other political parties got into the act. There were demonstrations and strikes and tearful airline workers crowding prime time on TV. There were threats that no Jet Airways aircraft would be allowed to operate anywhere in India. The next day, Jet chairman Naresh Goyal announced that all the staff would be taken back. "The employees are like family members," said Goyal. "I was mentally disturbed when I saw tears in their eyes." Jet later announced an across-the-board pay cut, which was quietly accepted because the employees had already been given a preview of the alternative.

Jet Airways and Goyal had no supporters for their move. But Manish Sabharwal, chairman of Bangalore-based staffing solutions firm TeamLease, offers a different perspective. "There is no question in my mind that Jet Airways executed what was a right decision the wrong way," he says. "There is also no question in my mind that most of the sacked employees of Jet who have been taken back will not be around a year from now because the company handled them without dignity, respect or listening [to them]."

Moral Obligations

An alternate view is that the layoffs at Jet Airways were "un-Indian." According to [Vasanthi Srinivasan](#), a professor of organizational behavior and human resource management at the Indian Institute of Management, Bangalore (IIMB), "There is this paternalistic culture in our organizations, and therefore a sense of a moral obligation on the part of most managers to care for their employees. Organizations in India prefer to hold on to their people as much as possible. The feeling is that the employees have been with us in good times and contributed to the growth of the organization, so how can we let them go in tough times?"

"Indian organizations have traditionally not had a culture of retrenching employees," says Hema Ravichandar, an HR professional currently offering strategic HR advisory services. She was formerly the global head of HR at Infosys. Adds Sudhakar Balakrishnan, CEO of Adecco India, an HR solutions company: "There is a certain level of obligation that employers in India tend to have towards their workforce. This is more so in the case of family-run firms and the public sector."

The public sector National Aviation Company of India Ltd (Nacil) -- the product of the merger between Air India and Indian Airlines -- has been hit hard by the double whammy of the slowdown and high fuel prices. But the management is handling things in its own fashion. The company has announced that up to 15,000 employees will be offered three-to-five years' leave without pay. Their seniority will be protected. "It is absolutely voluntary," says Nacil executive director of communications, Jitendra Bhargava.

Aviation has flown into an air pocket. So have some other sectors that are driven by bank loans -- real

estate and commercial vehicles, for instance. At Jamshedpur, the Tata Motors plant was closed for three days in early November "to match production with demand of vehicles produced [and] avoid build-up of inventory." Explains a company spokesperson: "About 95% of commercial vehicles are purchased through financing.... Unavailability of finance, coupled with high interest rates, is forcing customers to postpone purchases." Consider a headline in the *Hindustan Times*: "Tata Motors forces unpaid leave on workers."

But things seem to be different abroad, though the company concerned is the same. At the UK plants of Jaguar Land Rover (JLR), meanwhile, there is quite another corporate culture. JLR is now part of Tata Motors after a US\$2.3 billion takeover earlier this year. In October, the JLR management had asked for 198 volunteers for a redundancy plan. That has now been increased by another 400. "While regrettable, these are necessary actions to manage our business through a very challenging period," JLR CEO David Smith told the media.

East vs. West

Studies underline the fact that Western and Indian companies have different approaches to managing the crisis. According to a survey by global HR and financial consultancy service Watson Wyatt, 26% of US employers expect to make layoffs in the next 12 months. Some of the other options in this mid-October 2008 survey of 248 companies are: hiring freeze 25%, company-wide restructuring 23%, salary freeze 12%, and salary reduction 4%.

Writing in business daily *The Economic Times*, Pothen Jacob, head of the human capital group, Watson Wyatt India, points out that the numbers are very different for India. "Watson Wyatt's Strategic Rewards Survey reveals that the most common approach in India is a combination of restructuring (67%), slower rates of salary increase (51%) and a hiring freeze (62%). Only a small percentage of companies have considered options like reduced work week (10%), broad-based base pay reduction (3%) and early retirement (15%)." Pay cuts are limited in India; job cuts are not even on the radar in most places. "In the absence of a structured social net, the implications of a workforce reduction are both economic and emotional," writes Jacob. "Companies should first consider approaches that avoid layoffs."

"In industries like the IT and business process outsourcing (BPO) sectors, where there is close interaction with Western companies, some of the thinking around job cuts has changed," says Srinivasan of IIMB. "But, by and large, job cuts as the way to manage during a slowdown is still a very Western world view. Globalization has not really brought about a change in thinking in Indian organizations. While many multinationals have tried to get this mindset into their employees and there is much greater awareness that that jobs can be terminated at any time, the employees don't really believe it can happen to them. It is still seen as just a clause in their appointment letters. This is true even from the management side. Wherever terminations do take place, there is tremendous discomfort among the managers. We must also recognize that a large percentage of our population is first generation in the workforce from agriculture. There is, therefore, an underlying expectation of loyalty."

Ravichandar, however, believes that change is in the air. "Organizations or employees are no longer subscribers to the covenant of lifetime employment," she says. "The new mantra is really career resilience -- where organizations and individuals work together to ensure that the employee remains relevant and current with the role and organizational requirements."

"One of the biggest challenges organizations face in a downturn is managing employee morale," she continues. "Anxiety and discontent are bound to exist at such times. Strong employee-engagement initiatives including robust communication mechanisms, open channels between managers, their teams and HR, and training programs to keep employees relevant are some of the measures organizations can take to address this. Textbooks don't provide easy answers to managing in these difficult times. A lot depends on experience, prudence and management maturity."

The other big issue in India is the social stigma attached to losing a job. "In India, losing a job has more than just financial implications," says Srinivasan. "Because people work long hours at the workplace and are paid very well, their families tend to believe that they play a crucial role within the organization. If they were to suddenly lose their jobs it is perceived as a reflection on their competence. The social environment does not understand that one can be asked to leave a job because there is an economic

downturn."

"Tightening belts is certainly a preferable option to cutting jobs," says Balakrishnan. "Cutting jobs leaves a bitter taste in the mouth. In India, the majority of the households have a single breadwinner, so jobs cuts hit them very hard. Also, in India, a job is not only about money. There is a lot of status attached to it. Unlike in the West, here there is still a stigma attached to losing a job. Indians as a whole are very emotional when it comes to their jobs." Another critical difference is that a laid-off employee in the U.S., even if she or he is the sole breadwinner, can obtain unemployment benefits -- which offers moderate financial assistance at least for a short period. In India, the absence of a social safety net forces jobless workers to fend for themselves, increasing the distress that they and their families face.

So should Indian firms always choose pay cuts over job cuts? "Where you stand on this issue depends on where you sit," notes Sabharwal. "If you are a competent performer, you prefer job cuts. If you are an incompetent performer, you prefer pay cuts. The danger is in believing that everybody thinks about this issue the same way."

The Role of Organizational Culture

Srinivasan sees a certain virtue in cutting salaries rather than jobs. "Wherever there have been across-the-board salary cuts, one finds that the commitment to the organization actually increases," she says. "The fact that the leadership is willing to take a pay cut sends a very positive message to the team."

"If the organizational culture is good, employees will understand that these are difficult times and will be willing to take these cuts," adds Balakrishnan. "There is willingness to fight out the bad times together. Companies will look at rationalizing salaries, lower wage increases and perks like travel and hotel privileges, and try to cut expenses wherever possible."

"The conversation currently is on tightening belts -- be it switching off the lights, closing the facilities when not required or economizing on travel," says Srinivasan. "I am convinced that the way for Indian organizations to manage the slowdown is a combination of different measures: bring down labor costs, relocate different groups of people across the organization [from where they are overstaffed to where they are understaffed] and improve productivity and efficiency."

Srinivasan believes the angst over potential job losses is just a passing phase. "Almost everyone I meet is reasonably confident that things will turn around by mid-2009," she says. But Sabharwal sees a larger problem. "Over the past few years many managers confused luck with skill as the rising tide lifted even the leaky boats," he says. "But the huge inflation in employee numbers and cost over the past few years were accompanied by substantially lower hiring standards and lower productivity expectations. Whether managers like it or not, some cleansing is overdue, necessary and inevitable." He is optimistic, however. "India is going through a classic cycle where five years of high tide should and will be followed by a year or so of low tide. But people should realize that all that is happening in the world makes India much more attractive in an 18-month timeframe."

Some sectors of business are more vulnerable to job losses than others. "Some segments in India like real estate, retail and banking have made strategic errors by way of grossly over-hiring and these will get impacted," says Balakrishnan. The Assocham survey mentions seven sectors -- steel, cement, IT enabled services/BPO, financial and brokerage services, construction, real estate and aviation -- as areas where employers "have no choice." Everyone agrees there will be some impact there.

Winter of Discontent

The numbers being discussed are, however, much larger. In a Cover Story titled Pink Slip Winter, New Delhi-based magazine *BusinessWorld* talks of "3 million jobs lost in export-oriented and labor-intensive industries such as textiles, leather, gems and handicrafts." When it comes to specific companies, however, at the top of the list is Nacil (where the cut is voluntary and temporary) and Jet (where the employees have been taken back). The next four are IT companies -- Satyam, Wipro, TCS and Patni -- where the numbers laid off are not much higher than in the previous years.

The reality is that the big firms -- in whatever sector -- should be able to ride out the storm. The real

damage will be in the unorganized sector, where numbers are hard to come by. It is estimated that small and medium enterprises (SMEs) employ about 150 million people. These SMEs are mainly suppliers to large companies. When the latter catch a cold, the SMEs need hospitalization.

Another vulnerable group -- for which little data is available -- is India's 14 million migrant workers (out of a total of 98 million migrants), according to the 2001 census. The number is estimated to have doubled since then. These workers are employed as casual labor on large projects for large companies. (Almost half of them are in construction.) They get paid on an hourly basis. They can be told when they turn up for work that they are not required any more. They are always the first to be affected.

"Losing a job is a tragedy anywhere," says Sabharwal. "But we must keep things in perspective. All this talk about pink slips only affects 7% of India's labor force; 93% of India's labor force works in the unorganized sector where issues such as job security, workplace safety and social security have no relevance. So, at one level, most Indian workers face the most flexible and unfair labor regime in the world."